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EGYPT-USSR: Cairo appears determined to pursue a limited reconciliation with Moscow in spite of public reservations over this policy.

Speaking to a joint session of the nation's legislature and political organization a week after his trip to the Soviet Union, Prime Minister Sidqi deliberately painted an optimistic picture of the state of Soviet-Egyptian ties. Sidqi described his discussions in Moscow as having melted "the ice in our relations." The prime minister stated that the "Soviet Union is fulfilling and will continue to fulfill all its pledges to consolidate our war potential." [redacted] 25X1

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The Soviet issue was apparently one of the immediate and primary reasons for the resignation of War Minister Sadiq. [redacted] 25X1 Sadiq stepped down because he believed that Sidqi had misled the Egyptian people about the extent of Soviet support for

Egypt following his latest trip to Moscow. The prime minister's other efforts to effect an improvement in relations with the Soviet Union reportedly were also opposed by Sadiq, adding to the acrimony of their long-standing rivalry.

The reconciliation process seems likely to continue, and Sadiq's departure may help to smooth the way. [redacted] a high-level military delegation will travel to Moscow for a five-day visit on 10 November, with a summit meeting to follow some time later. [redacted] 25X1

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JAPAN: Heavy dollar selling has resumed in Tokyo, threatening the yen-dollar exchange rate.

The heavy dollar selling, which has topped $100 million in each of the last two days, reflects the weakness of the Tanaka government's five-point economic program to reduce Japan's huge trade surplus. The general reaction of the Japanese press, the trading companies, and some industrial leaders has been critical of the program as inadequate and ineffective. Total purchases by the Bank of Japan this month to maintain the yen-dollar exchange rate at the Smithsonian intervention point have reached about $1.3 billion. Japanese banking officials believe the central bank will be able to rechannel only a small part of these dollars into commercial banks, and foreign exchange holdings could rise by more than $1 billion this month to a record $17.5 billion.

Foreign traders, concerned over the possibility of another revaluation, are advancing scheduled purchases of Japanese goods to avoid exchange losses. Large trading firms, which handle the bulk of foreign trade, have been hedging against a revaluation for at least two months by divesting themselves of foreign currency assets while having their foreign subsidiaries accelerate purchases in Japan. If this trend gains momentum, it will severely undermine nearly any effort by Tokyo to hold off a revaluation. [redacted]

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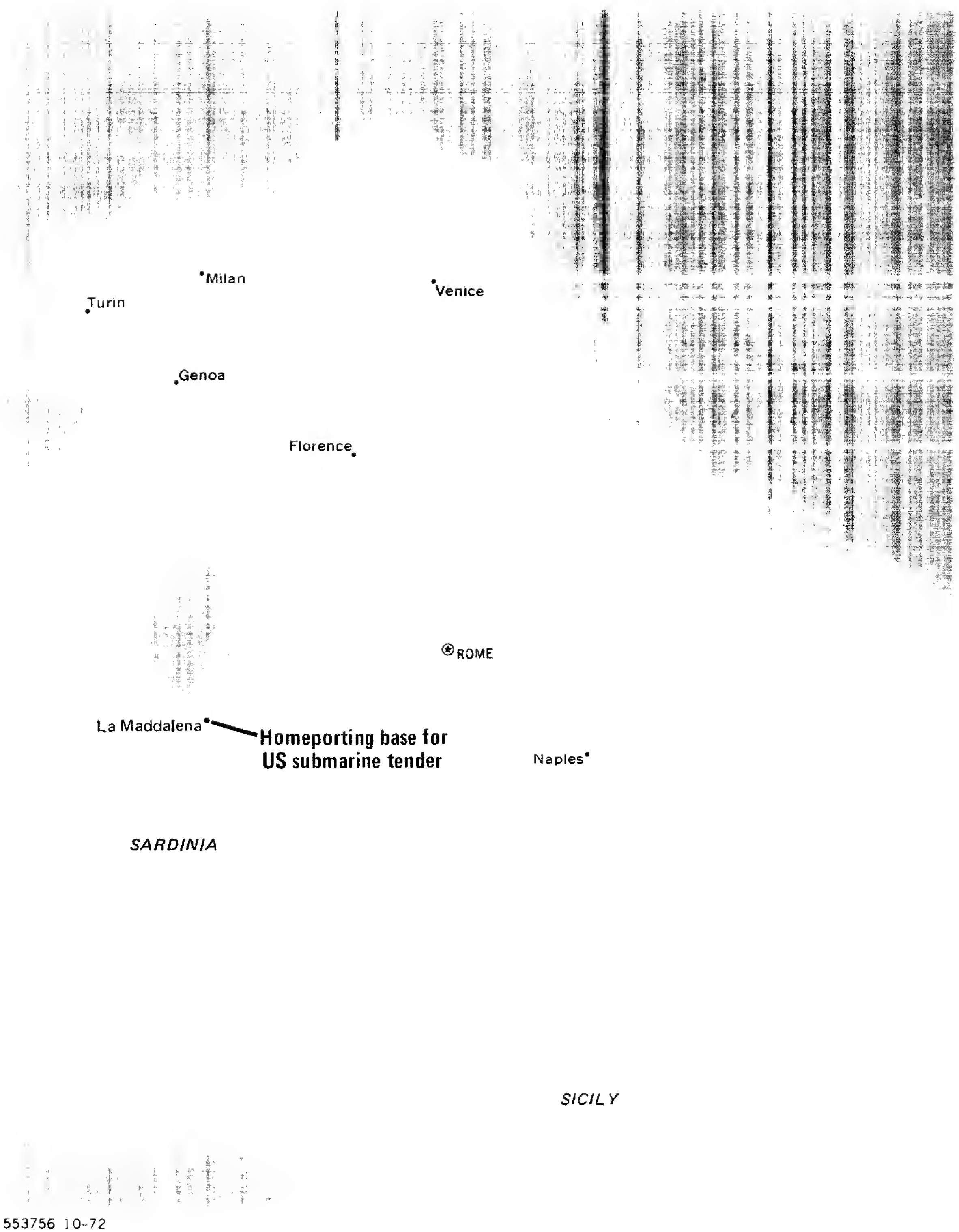
Milan
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ITALY: The Communist Party is forcing a Senate test on the Andreotti government's grant of homeporting privileges at Sardinia to a tender for nuclear and diesel-powered submarines of the US Sixth Fleet.

The vote is expected in early November in the Senate, where the government's majority is both narrow and fragile. Although the neo-fascist Italian Social Movement might ensure government victory on this question, such support would alienate and might force the withdrawal of the Social Democrats or the Republicans, junior members of the coalition. The government could not survive the defection of either party.

The Soviets have taken the Italians to task over the homeporting issue, both in Rome earlier this month during preparations for Prime Minister Andreotti's visit to Moscow and during the visit itself this week. Foreign Minister Medici described the talks as marked by a "frankness" which "could not always be pleasant--either for one party or the other."

The Soviet criticism was unusually sharp, given the occasion of Andreotti's visit, and was reinforced by a cartoon in the same issue of Pravda that carried a report of anti-fascist strike activity in Italy. All this probably is intended as reassurance for the Italian Communist Party of Soviet support. 25X1

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URUGUAY: President Bordaberry may face a cabinet crisis as a result of his acquiescing in military demands to try one of the nation's political leaders.

Under heavy pressure from his military chiefs, Bordaberry apparently agreed to lift the congressional immunity of Colorado Party leader Jorge Batlle to force him to present proof of charges he made against the armed forces in a speech earlier this week. The President now risks losing the backing of three ministers who are supporters of Batlle, in addition to the acting defense minister, who reportedly has already resigned.

Earlier, when Bordaberry hesitated to allow Batlle's arrest, army Commander in Chief General Martinez, who took office only last week, resigned in protest. Bordaberry's change of mind has undoubtedly placated some officers who were angered by the administration's reluctance to defend their honor. Martinez, for instance, reportedly resumed his post following Batlle's arrest. On the other hand, Bordaberry's action may leave him without majority political support.

Meanwhile, Batlle appears to be in serious trouble. He has been the subject of recent military investigations into economic crimes. He counterattacked by challenging the military to provide facts instead of rumors and claimed that the army was being advised by a former Tupamaro. A military tribunal reportedly will now try Batlle for violating the National Security Law in his speech while the investigation into his alleged economic crimes continues.

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YUGOSLAVIA: The Serb party's newly elected leadership will try to introduce fresh ways to cope with Tito's demand for tighter party discipline and with endemic economic problems, but it also will try to avoid the appearance of drastic change.

The new party chief, Tihomir Vlaskalic, and his deputy, Nikola Petronic, are the first of the postwar generation of Communists to be elevated from obscurity to such high office in Serbia. Vlaskalic, 49, holds a doctorate in economics, has had training in the West, and has been a strong advocate of Yugoslavia's unique blend of socialist and market economics. The 36-year-old Petronic, who has had experience in the youth organization, presumably will be charged with improving the party's image among young people.

The new leaders are not expected to encounter the widespread unpopularity that greeted, and still plagues, the Croat leaders Tito installed after his purge of nationalists last December. Vlaskalic, nevertheless, faces the delicate task of implementing Tito's purge without further adding to dissension.

Vlaskalic also confronts a potentially serious economic problem. Yesterday Radio Belgrade reported a run on two banks in the capital, presumably by citizens apprehensive about Tito's talk of confiscating "illegally" accumulated wealth. The run on the banks, unless quickly checked, could hurt the economy and damage public confidence. A protracted bank run would further aggravate Yugoslavia's liquidity problems and would drastically curtail remittances from abroad. These payments, which amount to more than $1 billion annually, are the major source of invisible earnings. Faced with these prospects, the National Bank may have to intervene to forestall bank closings. 25X1

UK: An apparent lack of progress in the anti-inflation talks by leaders of government, business, and labor is contributing to the weakening of the pound sterling.

Rumors that the pound will be repegged at $2.25 have helped to depress the exchange rate; another reason for the pound's weakness is widespread uncertainty about Britain's ability to compete in the EC in view of continuing inflation. The discussions are continuing with the sides "still a considerable distance apart." News of a settlement, however, would relieve much of the pressure against the pound.

Yesterday's low value of the pound, which at $2.32 is nearly 11 percent below its Smithsonian central rate, reportedly induced the Bank of England to enter the market to slow the slide. Although the West German economics minister has stated that the EC central banks would support the pound if asked, London apparently has not requested such assistance. The present EC countries are concerned over the potential difficulties that the pound's weakness poses for their own trade prospects. [redacted] 25X1

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NOTES

PERU-POLAND: During a recent visit to Lima by the Polish deputy premier, some $68 million of economic aid was promised to Peru. This raises total Communist aid to about $190 million, all of which has been extended since the Velasco government came to power in 1968. Government enterprises can use $48 million of the new Polish aid to purchase machinery and equipment, to undertake agricultural, fishing, and forestry projects, to develop coal deposits, and to build a thermoelectric powerplant and possibly a foundry-forge plant. The rest is to be made available to the private sector of the economy for unspecified joint ventures. Peru still has not used some $10 million of Polish credits extended for similar projects in 1970. [redacted] 25X1

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DAHOMEY: The military elements which overthrew Dahomey's civilian government on Thursday have announced a cabinet composed of majors and captains, some of whom are veterans of past coups and plots. Major Mathieu Kerekou, who engineered the coup apparently to serve his own ambitions, has emerged as president and head of national defense. The cabinet, reflecting the realities of faction-ridden Dahomean politics, includes members from the country's competing ethnic groups and regions. Major Kerekou told the French ambassador that Dahomey's senior officers--most of whom have figured in numerous previous military take-overs but evidently had no hand in this one--would not be given posts in the new regime nor allowed to remain in the army. Meanwhile, a senior French official has told a US Embassy officer in Paris that President Pompidou's visit to Dahomey, scheduled for late November, would be postponed. Nonetheless, the official expected that his government would be able to work with the new regime. [redacted]

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